REPORT OF EXAMINATION
OF THE

REPUBLIC INDEMNITY COMPANY OF AMERICA

AS OF
DECEMBER 31, 2004

Participating State
and Zone:

California

Filed June 19, 2006

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Los Angeles, California
April 5, 2006

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Gary L. Smith
Secretary, Zone IV-Western
Director of Insurance
Department of Insurance, State of Idaho
Boise, Idaho

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Director and Commissioner:

Pursuant to your instructions, an examination was made of the

REPUBLIC INDEMNITY COMPANY OF AMERICA

(hereinafter also referred to as the Company) at its home office located at 15821 Ventura Boulevard, Encino, California 91436.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2001. This examination covers the period from January 1, 2002 through December 31, 2004. This examination was conducted pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2004, as deemed necessary under the circumstances.

The examination was conducted concurrently with the examination of the Company's subsidiary, Republic Indemnity Company of California.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records, fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

COMPANY HISTORY

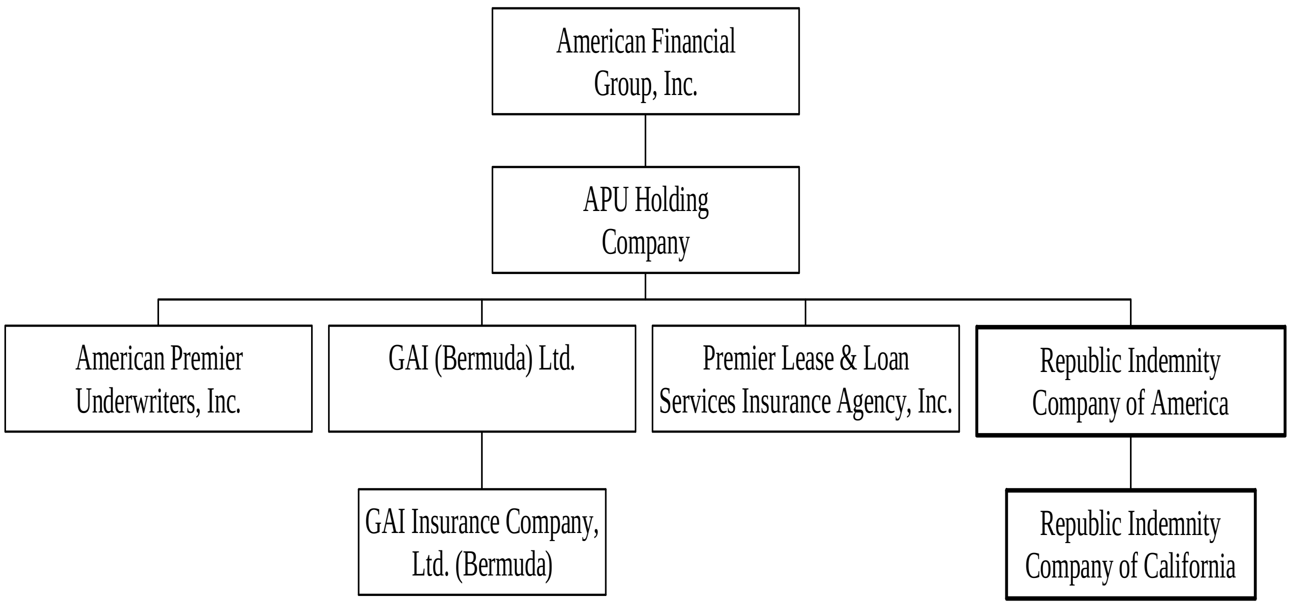
The Company was incorporated under the laws of the State of California on December 5, 1972, and began business on March 1, 1973 with paid-in capital of $1 million.

The Company paid a total of $17 million in dividends to its then parent, Pennsylvania Company (Pennsylvania) during the three year period under examination.. Effective October 15, 2002 Pennsylvania merged into American Premier Underwriters, Inc. (APU) and the Company became a wholly-owned subsidiary of APU. On December 19, 2003, APU made a $20 million cash capital contribution to the Company. As a result, the balance of the gross paid-in and contributed surplus account increased from $89,431,116 to $109,431,116 at December 31, 2004.

Effective January 31, 2004, the stock of the Company was paid as a dividend to APU's parent, APU Holding Company (APU Holding), making the Company a wholly-owned subsidiary of APU Holding. APU Holding is a wholly-owned subsidiary of American Financial Group, Inc. (AFG).

MANAGEMENT AND CONTROL

The following abridged organizational chart depicts the Company's relationship within the holding company system at December 31, 2004:



Management of the Company is vested in a seven-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2004 follows:

Directors

Name and Residence	Principal Business Affiliation
Gary J. Gruber Cincinnati, Ohio	Senior Vice President Great American Insurance Company
Dwayne T. Marioni Novato, California	President and Chief Executive Officer Republic Indemnity Company of America
Keith A. Jensen Cincinnati, Ohio	Executive Vice President Great American Insurance Company
Karen Holley Horrell Cincinnati, Ohio	Senior Vice President Great American Insurance Company
David P. Mitchell Agoura Hills, California	Senior Vice President Republic Indemnity Company of America
David Harkins Westlake Village, California	Senior Vice President Republic Indemnity Company of America
Dion G. Riley Chatsworth, California	Senior Vice President Republic Indemnity Company of America

Principal Officers

Name	Title
Gary J. Gruber	Chairman
Dwayne T. Marioni	President and Chief Executive Officer
Dion G. Riley	Senior Vice President, Chief Financial Officer and Treasurer
Michael J. Kirrene	Senior Vice President and Chief Information Officer
Frank M. Ceraolo	Senior Vice President
David Harkins	Senior Vice President
David P. Mitchell	Senior Vice President

Affiliated Management Agreements

Workers' Compensation Handling Agreement and Workflow Process: On March 1, 2003 the Company entered into a Workers' Compensation Handling Agreement and Workflow Process (Agreement) with Alternative Markets, a division of Great American Insurance Company (GAIC). Under the terms of the Agreement, Alternative Markets administers workers' compensation claims arising out of the policies issued by GAIC on behalf of the Company. These policies are reinsured 100% by the Company. Claim administration fees are based on a flat rate of $1,350 for indemnity claims, $150 for medical only claims and $1,200 for medical only claims that are converted to indemnity claims. During the years 2003 and 2004, the Company paid GAIC $28,586 and $15,811, respectively. Under California Insurance Code (CIC) Section 1215.5(b)(4), this Agreement requires prior approval from the California Department of Insurance (CA-DOI). It is recommended that the Company comply with CIC Section 1215.5(b)(4) by obtaining approval of this Agreement with the CA-DOI.

General Services Agreement: On August 1, 1996 the Company entered into a General Services Agreement by and between 49 affiliated insurance companies (collectively referred to as the Parties) of GAIC holding company group. Under the terms of the agreement, the Parties furnish various services, such as printing, office duplicating, telecommunications, purchasing, personnel, administrative and data processing to each other. Charges for these services are based on actual cost. During the years 2002, 2003, and 2004, the Company paid GAIC $1.29 million, $1.26 million and $2.04 million, respectively.

Investment Services Agreement: On January 1, 1996 the Company amended and restated its Investment Services Agreement with American Money Management Corporation (AMMC), an affiliated Company. Under the terms of the agreement, AMMC provides management and accounting services related to the Company's investment portfolio which include counsel and advice in connection with the formulation of investment programs and strategies. In addition, AMMC manages the investment of the Company's portfolio of invested assets in accordance with the Company's investment policy.

The Company pays AMMC an annual fee equaling 0 .20% of the first $500 million of invested assets plus 0.10% of the portfolio that exceeds $500 million, but no more than the actual cost of these services. During the years 2002, 2003 and 2004, the Company paid AMMC $960,500, $887,836 and $823,095, respectively.

Tax Allocation Agreement: The Company's federal income tax return is consolidated with that of American Financial Group, Inc. and its affiliates. This agreement was entered into on May 13, 1974. Pursuant to this written agreement, the amount of the Company's tax liability or refund is determined as if the Company was filing on a separate return basis. Estimated allocations are determined and payable quarterly and final allocations are made and paid annually. Effective December 31, 2005, the Company and its affiliates entered into a new tax allocation agreement in order to clarify and specify the allocation methods applicable to all tax returns. In addition, the new agreement clearly affirms all the entities participating in the agreement. The new agreement was approved by the CA-DOI on November 29, 2005.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2004, the Company was licensed to write various property and casualty coverages in the District of Columbia and the following 38 states:

Alabama	Illinois	Missouri	South Carolina
Alaska	Indiana	Montana	South Dakota
Arizona	Iowa	Nebraska	Tennessee
Arkansas	Kansas	Nevada	Texas
California	Kentucky	New Mexico	Utah
Colorado	Louisiana	North Carolina	Washington
Delaware	Maine	Ohio	West Virginia
Georgia	Maryland	Oklahoma	Wisconsin
Hawaii	Michigan	Oregon	
Idaho	Mississippi	Rhode Island	

During 2004, the Company wrote $73.3 million of direct premiums that consisted exclusively of workers' compensation business. Of the direct premiums written, $41.5 million (56.7%) was written in California and $12.1 million (16.5%) was written in Nevada. The Company specializes in writing preferred risks.

Workers' compensation business is written through approximately 1,011 independent agents who target all risk classes except petroleum and mining. The Company maintains branch offices in: Englewood, Colorado; Henderson, Nevada; Phoenix, Arizona; Portland, Oregon; Encino (also home office), San Diego and San Francisco, California.

REINSURANCE

Inter-company Pooling Agreement

The Company and its wholly-owned subsidiary, Republic Indemnity Company of California (RICC), are parties to an inter-company pooling agreement. Under the terms of the agreement, substantially all business written by the two companies is pooled. Premiums, losses and expenses incurred are then reapportioned and shared by the Company and RICC in the proportions of 97% and 3%, respectively.

Assumed

The Company has a fronting arrangement with Great American Insurance Company (GAIC), an affiliate, covering out of state incidental workers' compensation risks; 100% of the business written by GAIC is ceded to the Company.

Ceded

The following is a summary of the Company's principal reinsurance agreements in-force and in run-off as of December 31, 2004:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Workers' Compensation XOL:			
1st Excess of Loss	American Reinsurance Company (62.5%) GE Reinsurance Corporation (37.5%)	$1 million	$1 million
2nd Excess of Loss	GE Reinsurance Corporation (45%) Aspen Insurance UK Ltd (30%)	$2 million	$3 million *
3rd Excess of Loss	GE Reinsurance Corporation (40%) Aspen Insurance UK Ltd (30%) Hanover Ruckversicherungs -Aktiengesellschaft (30%)	$5 million	$5 million
Workers' Compensation Catastrophe XOL:			
1st Excess of Loss	Hanover Ruckversicherungs -Aktiengesellschaft (30%) Various Reinsurers (70%)	$10 million	$10 million
2nd Excess of Loss	Swiss Reinsurance America Corporation (50%) Various Reinsurers (50%)	$20 million	$30 million
3rd Excess of Loss	Swiss Reinsurance America Corporation (50%) Various Reinsurers (50%)	$50 million	$50 million

* The Company retains 25% of $3 million.

The Company and RICC are parties to reinsurance agreements with non-affiliated reinsurers covering business subject to the pooling arrangement. The Company and RICC have a contractual right of direct recovery. Cessions to these non-affiliated reinsurers occur subsequent to the cession of pooled business. The total net reinsurance recoverable due to the Company as of December 31, 2004 is $75.5 million.

Retroactive Reinsurance (Reported as Aggregate Write-ins for Liabilities)

Effective April 1, 1998, the Company, and its subsidiary, RICC, entered into a retroactive reinsurance agreement with Converium, Ltd. (Converium). Under the terms of the agreement, the Company and RICC ceded 95% of $60 million in excess of $390 million of its loss and loss adjustment expense reserves to Converium. The agreement pertains to workers' compensation losses unpaid as of March 31, 1998, for insured events with occurrence dates from January 1, 1988 through March 31, 1998. The total consideration paid by the Company and RICC for the agreement was $14.7 million.

Pursuant to the Statement of Statutory Accounting Principles (SSAP) No. 62, the Company's 2004 Annual Statement disclosed the following effect of the retroactive reinsurance on the Company's balance sheet and income statement:

1. The total amount of retroactive reinsurance was $57 million. This amount was 100% collateralized by letters of credit. The Company's portion of the retroactive reinsurance was $55.29 million (97%) and is reflected as a contra-liability in the aggregate write-ins for liability account.

2. The Company's surplus gain of $41 million was restricted as a special surplus funds as an aggregate write-in for special surplus funds.

Stop Loss Agreement

In 1988, the Company entered into a reinsurance contract with Great American Insurance Company (GAIC), an affiliate, which provides for aggregate excess of loss coverage on workers' compensation policies for accident years 1980 through 1987. The contract provides for a maximum coverage of $35.1 million in excess of $440.3 million for losses paid on accident years 1980 through 1987. In addition, GAIC agreed to reimburse the Company for its loss adjustment expenses, at a rate of 14% of losses paid, but not exceeding $4.9 million. The premium paid by the Company for this coverage was $16 million. In September 2004, this agreement was commuted and the Company recovered $3.68 million.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2004

Underwriting and Investment Exhibit for the Year Ended December 31, 2004

Reconciliation of Surplus as Regards Policyholders
from December 31, 2001 through December 31, 2004

Statement of Financial Condition
as of December 31, 2004

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 669,502,144	$	$ 669,502,144	
Stocks:				
Preferred stocks	1,357,000		1,357,000	
Common stocks	16,298,090		16,298,090	
Cash and short-term investments	53,543,611		53,543,611	
Other invested assets	40,982		40,982	
Receivable for securities	21,744		21,744	
Investments income due and accrued	7,169,437		7,169,437	
Premiums and considerations:				
Uncollected premiums and agents' balances course of collection	26,726,477	1,289,448	25,437,029	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	(6,715,219)		(6,715,219)	
Accrued retrospective premiums	3,738	374	3,364	
Reinsurance:				
Amounts recoverable from reinsurers	4,739,535		4,739,535	
Funds held by or deposited with reinsured companies	16,000		16,000	
Net deferred tax asset	48,769,361	27,426,380	21,342,981	
Guaranty funds receivable or on deposit	112,310		112,310	
Electronic data processing equipment and software	2,916,446	1,208,349	1,708,097	
Furniture and equipment, including health care delivery assets	1,185,059	1,185,059		
Receivable from parent, subsidiaries and affiliates	268,574	268,574		
Other assets non-admitted	771,928	771,928		
Aggregate write-ins for other than invested assets	3,201,601		3,201,601	
Total assets	$ 829,928,818	$ 32,150,112	$ 797,778,706	

Liabilities, Surplus and Other Funds			Notes
Losses		$493,932,892	(1)
Loss adjustment expenses		39,869,226	(1)
Commission payable, contingent commissions and other similar charges		3,263,541	
Other expenses		10,823,686	
Taxes, licenses and fees		1,861,593	
Current federal and foreign income taxes		841,268	
Unearned premiums		28,858,430	
Ceded reinsurance premiums payable		1,248,109	
Amounts withheld or retained by company for account of others		716,309	
Provision for reinsurance		607,409	
Payable to parent, subsidiaries and affiliates		1,480,933	
Aggregate write-ins for liabilities		(28,280,292)	(2)
Total liabilities		555,223,104	
Aggregate write-ins for special surplus funds	$ 41,006,750		
Common capital stock	3,500,000		
Gross paid-in and contributed surplus	109,431,116		
Unassigned funds (surplus)	88,617,736		
Surplus as regards policyholders		242,555,602	
Total liabilities, surplus and other funds		$ 797,778,706	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2004

Statement of Income

Underwriting Income		
Premiums earned		$ 328,377,927
Deductions:		
Losses incurred	$190,586,092	
Loss expenses incurred	30,186,201	
Other underwriting expenses incurred	65,960,076	
Total underwriting deductions		286,732,369
Net underwriting gain		41,645,558
Investment Income		
Net investment income earned	$ 26,419,555	
Net realized capital gains	5,782,791	
Net investment gain		32,202,346
Other Income		
Net loss from agents' balances charged off	$ (430,290)	
Finance and service charges not included in premiums	137,328	
Aggregate write-ins for miscellaneous income	(3,421,671)	
Total other income		(3,714,633)
Net income before dividends to policyholders and before federal income taxes		70,133,271
Dividends to policyholders		1,032,585
Federal income taxes incurred		29,062,382
Net income		$ 40,038,304

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2003		$ 220,832,040
Net income	$ 40,038,304	
Change in net unrealized capital gain (loss)	713,475	
Change in net deferred income tax	5,917,977	
Change in nonadmitted assets	(2,820,771)	
Change in provision for reinsurance	354,577	
Aggregate write-ins for gains in surplus (change in excess of statutory reserves over statement reserves)	(22,480,000)	
Change in surplus as regards policyholders for the year		21,723,562
Surplus as regards policyholders, December 31, 2004		$ 242,555,602

Reconciliation of Surplus as Regards Policyholders
from December 31, 2001 through December 31, 2004

Surplus as regards policyholders, December 31, 2001, per Examination			$ 177,685,297
	Gain in Surplus	Loss in Surplus	
Net income	$ 70,482,254	$	
Net unrealized capital gains	2,623,580		
Change in net deferred income tax	8,850,181		
Change in non-admitted assets	1,118,118		
Change in provision for reinsurance	1,346,172		
Surplus adjustments: Paid-in	20,000,000		
Dividends to stockholders		17,000,000	
Aggregate write-ins for gains in surplus (change in excess of statutory reserves over statement reserves)		22,550,000	
Totals	$ 104,420,305	$ 39,550,000	
Net increase in surplus as regards policyholders			64,870,305
Surplus as regards policyholders, December 31, 2004, per Examination			$ 242,555,602

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2004 and September 30, 2005 were found to be reasonably stated and have been accepted for purposes of this examination.

(2) Aggregate Write-ins for Liabilities

As noted in the reinsurance section of this report, the above captioned liability account includes a $55.29 million contra-liability related to the retroactive reinsurance with Converium, Ltd. (Converium). Also included in this liability account is an excess of statutory reserve of $22.55 million as required by California Insurance Code (CIC) Section 11558. CIC Section 11558 states, in part, that the minimum reserve required for the workers' compensation line of business must be 65% of earned premiums (loss ratio) for each of the last three-accident years. As of year-end 2004, the Company reported a 61.2% loss ratio for the 2004 accident year for this line of business. The $22.55 million established by the Company represented the difference between the 61.2% loss ratio reported by the Company and the 65% minimum loss ratio required by the Code, after applying the 97% inter-company pooling percentage.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control - Workers' Compensation Handling Agreement and Workflow Process (Page 5): This agreement was entered into without prior approval from the CA-DOI. It is recommended that the Company obtain approval of this agreement.

Previous Report of Examination

Reinsurance–Inter-company Pooling Agreement (Page 6): It was recommended that management comply with the settlement provisions of the inter-company pooling agreement. The Company has complied with the recommendation.

Accounts and Records (Page 9): It was recommended that management complete the development and testing of its business continuity plan. The Company has complied with the recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

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Duane Armstrong, CFE
Examiner-In-Charge
Senior Insurance Examiner (Supervisor)
Department of Insurance
State of California